State of Washington
Decision Package
Department of Social and Health Services

FINAL

DP Code/Title: M2-9M Medical Inflation
Program Level - 080 Medical Assistance

Budget Period: 2003-05   Version: 11 2003-05 Agency Request Budget

Recommendation Summary Text:

This item funds inflation applicable to professional medical services and supplies purchased by the Department of Social and Health Services (DSHS) programs as an integral component of services provided to agency clients.

Fiscal Detail:

Operating Expenditures

	FY 1	FY 2	Total
Program 080			
001-1 General Fund - Basic Account-State	11,000	23,000	34,000
001-2 General Fund - Basic Account-Federal	230,000	468,000	698,000
Total Cost	**241,000**	**491,000**	**732,000**

Staffing

Package Description:

The general inflation rate for medical services is estimated to average 4.4 percent annually over the 2003-05 Biennium. This estimate represents a composite rate comprised of changes in costs for a number of medical services and supplies. In this request, DSHS is making a distinction between the component or components of medical care (i.e. physicians, hospitals, drugs) and has applied corresponding estimated inflation rates for these services. The medical care services/goods and corresponding rates by program are as follows:

Medical Care Inflation = 4.4 percent
(US BLS CPI-U - Seattle-Tacoma-Bremerton, WA MSA - 2001)

Physician Services = 3.6 percent
(US BLS CPI-U - U.S. City Average - 2001)

Hospital Services = 3.1 percent
(CMS Hospital Prospective Reimbursement Market Basket - 2nd Quarter 2004 Forecast - DRI)

Drugs = 5.4 percent
(US BLS CPI-U - U.S. City Average - 2001)

Washington Medicaid Hospital Services = 6.3 percent
(Managed Care Rates - DSHS MAA Forecast)

Health Insurance Premiums = 12 percent
(Office of Financial Management)

Narrative Justification and Impact Statement

How contributes to strategic plan:

Necessary medical services for DSHS clients will continue to be available at present program levels.

Performance Measure Detail

Program: 080

DSHS BDS Reporting
C:\DSHSBDS\dp_main.rpt

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Goal: 10H   Assure access to high quality health care

No measures submitted for package

	Incremental Changes	
	FY 1	**FY 2**

Reason for change:

Recognition of these medical inflation costs will facilitate the department's ability to continue providing clients with current levels of service.

Impact on clients and services:

Funding will assure that affected client populations will get appropriate medical care at levels that are presently available.

Impact on other state programs:

All DSHS programs that provide medical services would be impacted.

Relationship to capital budget:

None

Required changes to existing RCW, WAC, contract, or plan:

None

Alternatives explored by agency:

No alternatives are proposed. The services involved require the expertise of qualified medical providers at specified costs. Generally, costs are related to medical examinations, lab tests, radiology, and other ancillary services.

Budget impacts in future biennia:

General medical inflation is currently projected at a per annum rate of 4.4 percent, with higher rates for some components such as drugs and hospitals.

Distinction between one-time and ongoing costs:

These are all ongoing costs.

Effects of non-funding:

Medical service providers may choose not to renew contracts with DSHS, charge higher rates for services to other populations of DSHS clients, and/or reduce the number of services they are willing to provide in an attempt to balance costs with available reimbursement. These actions could impact client access to care and the quality of the care received. Programs may attempt to cut costs/services in other areas in order to fund medical inflation-related incremental costs.

Expenditure Calculations and Assumptions:

For the Medical Assistance Administration, the proposed inflation adjustment is limited to the costs of physician services that support the disability determination process in the Division of Disablility Determination Services (DDDS).

This step requests an inflation increase of 3.6 percent per year, anticipating the projected growth in costs related to purchased physicians medical services (examinations, testing, etc.) that support DDDS disability determinations. This request does not

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include amounts for medical inflation related to forecasted programs or pharmaceuticals.

Physicians and other medical professionals provide services to meet the requirements of the disability determination process. Adequate reimbursement is essential to maintaining a cadre of qualified providers who are willing to provide these required services. This step will allow adequate payment levels to continue to meet DDDS' needs in this regard.

Assumptions:
- Physician services medical inflation of an average of 3.6 percent per annum for the biennium.
- The medical services impacted are not subject to entitlement program coverage.
- Medical services exclude the costs related to certain psychotropic and other pharmaceuticals.

See attachment - MAA M2-9M Medical Inflation.xls

Object Detail	**FY 1**	**FY 2**	**Total**
Program 080 Objects			
N Grants, Benefits & Client Services	241,000	491,000	732,000

DSHS Source Code Detail

Program 080	**FY 1**	**FY 2**	**Total**
Fund 001-1, General Fund - Basic Account-State			
Sources Title			
0011 General Fund State	11,000	23,000	34,000
Total for Fund 001-1	**11,000**	**23,000**	**34,000**
Fund 001-2, General Fund - Basic Account-Federal			
Sources Title			
001B Social Security Disability Ins (100%)	230,000	468,000	698,000
Total for Fund 001-2	**230,000**	**468,000**	**698,000**
Total Program 080	**241,000**	**491,000**	**732,000**